

NSC BRIEFING

11 December 1957

DEVELOPMENTS IN IRAN

- I. Increasingly alarming reports from Iran indicate that the Soviet Union is maneuvering adroitly in an effort to get the Shah to accept Soviet aid and to undercut him domestically.
  - A. The USSR is continuing to offer extensive economic and technical aid reportedly without strings to Iran. These offers are being publicized inside Iran.
    1. [REDACTED] on 10 December 25X1X that the USSR was also offering ships to the Iranian navy.
  - B. The Shah is embarrassed by these offers and concerned over the advancing Soviet influence and prestige and the concomitant decline of western influence and prestige throughout the Middle East.
  - C. Acceptance of Soviet aid would probably mean that large numbers of Soviet technicians would be stationed in the IRAN. country. This would open the country to grave threats of subversion.
- II. The Shah feels he must have outside aid because of serious long-term domestic threats to his rule.
  - A. He is in fact in a race between achieving economic improvements directly to benefit the people and rising dissatisfaction which is increasingly focusing on his person and the monarchy.
  - B. Hence, the Shah is pushing an extensive development program.
  - C. However, he expects a budget deficiency in 1958 and for TO this he feels he needs foreign aid.

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D. The Shah does not feel he can divert oil revenues to his regular budget. This would be most unpopular with his subjects.

III. Thus, the Shah feels he must not only receive economic and military aid but direct budgetary aid from the US--he has recently mentioned a \$50 million loan. He has intimated that if he does not receive US aid he may:

A. Withdraw from the military committee of the Baghdad Pact.

B. Be forced to accept some of the proffered Soviet economic aid.

IV. The Shah is worried over the Soviet campaign of friendship.

He has many ties with the US which would deter him from accepting the USSR's aid offers. But aside from trying to use the present situation for bargaining purposes, he may come to feel that the Soviet power and effort in Iran is so great that he must do business with them in order to save himself.

A. On 17 November, [REDACTED] <sup>25X1X</sup> in summarizing the situation stated, "We believe the Shah entirely capable of accepting Russian supplier credit for large development projects\*\*\*. It makes no difference that this does not relieve the budget. Damage from such acceptance would probably become irreparable."

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**BACKGROUND NOTE ON IRAN**

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[REDACTED] that the Shah told him that Iran would be able to balance its budget by 1960. This would come from increased oil revenues. Thus the State Department's reasoning in not lending any money to him now may be that, in view of the fact that he will be out of the woods in two years, there is no point in lending him anything now. On the other hand, one can argue that Iran's future financial condition makes it a good loan risk.

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